

Message Text

LIMITED OFFICIAL USE

PAGE 01 BOGOTA 04717 311358Z

46

ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 XMB-07 TRSE-00 L-03 CIAE-00

INR-10 NSAE-00 RSC-01 DRC-01 /054 W

----- 102292

R 302303Z MAY 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 3010

USDOC

INFO AMCONSUL CALI

AMCONSUL MABELLIN

LIMITED OFFICIAL USE BOGOTA 4717

E.O. 11652: NA

TAGS: BEXP, CO

SUBJECT: GOC FEARS DEFAULT BY WESTINGHOUSE ON CONTRACT FOR THERMO-CARTAGENA

PASS WARREN GLICK EXIMBANK

1. MINISTER OF MINES GERARDO SILVA CALLED ME MAY 28 TO EXPRESS THE GOC'S SERIOUS FEAR THAT WESTINGHOUSE INTENDS TO DEFAULT ON ITS US\$29 MILLION CONTRACT SIGNED WITH CORPORACION ELECTRICA DE LA COSTA ATLANTICA (CORELCA) JAN 31 TO SUPPLY AND INSTALL 132 MW THERMAL ELECTRIC GENERATING PLANT (TWO UNITS) FOR CARTAGENA. HE ASKED ME TO RECEIVE JACOBO ACOSTA BENDEK, DIRECTOR GENERAL OF CORELCA, WHO WOULD EXPLAIN THE SITUATION. THE MINISTER STRESSED THAT THIS MATTER WAS VIEWED BY THE GOC WITH THE GREATEST SERIOUSNESS, AND THAT PRESIDENT PASTRANA WAS PERSONALLY AND GRAVELY CONCERNED. ON MAY 29 FOLLOWING ACOSTA'S CALL ON ME THE MINISTER PERSONALLY TELEPHONED ME AGAIN TO REPEAT HIS CONCERN, NOT ONLY OVER THE CONTRACT AND THE PROJECT, BUT OVER THE CONSEQUENCES OF A WESTINGHOUSE DEFAULT WITH REGARD TO US-COLOMBIAN COMMERCIAL RELATIONS GENERALLY. HE ASKED THAT THE USG DO WHAT IT COULD TO AVOID ADEFAULT.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BOGOTA 04717 311358Z

2. ACOSTA, DIRECTOR GENERAL CORELCA, WHO CALLED ON ME

MAY 29, EXPLAINED THAT NEGOTIATIONS WITH WESTINGHOUSE BOTH BEFORE AND AFTER SIGNATURE OF CONTRACT HAD WEATHERED MANY DIFFICULT PERIODS, INCLUDING THE NEED FOR GOC TO DEFEND THE AWARD TO WESTINGHOUSE BEFORE A COMMITTEE OF COLOMBIAN CONGRESS. COMMITTEE JUDGED THAT SIEMENS PROPOSAL HAD LOWER PRESENT VALUE, BUT MATTER WAS RESOLVED IN WESTINGHOUSE'S FAVOR BECAUSE OF FIXED PRICES IN WESTINGHOUSE PROPOSAL AND REVALUATION OF MARK DURING EVALUATION PERIOD.

3. ANOTHER PROBLEM, WHICH HAS PERSISTED, IS THE CONTINUING RISE IN THE PRICES OF MATERIALS. A FEW WEEKS AGO THE REGIONAL VICE PRESIDENT FOR WESTINGHOUSE, ROBERT WILCOX, BASED IN RIO, CALLED ON ME TO POINT OUT THAT CONSTANTLY INCREASING COSTS THREATENED PROFIT ON THERMO-CARTAGENA, AND THAT DEFAULTING ON THE CONTRACT WAS BEING CONSIDERED. HE ADMITTED THAT CORELCA HAD BEEN COOPERATIVE IN HELPING TO REDUCE CERTAIN COSTS EVEN AFTER CONTRACT SIGNED AND HE SAID HE EXPECTED THAT WESTINGHOUSE WOULD BE ABLE TO LIVE WITH CONTRACT. AT THAT TIME I GAVE MY FRANK OPINION THAT DEFAULT WOULD BE A VERY UNDESIRABLE COURSE FOR BOTH WESTINGHOUSE AND US, AND ASKED HIM TO CONVEY TO HIS HEADQUARTERS MY CONCERN.

4. RUMORS ORIGINATING WITH WESTINGHOUSE SUBCONTRACTORS IN COLOMBIA HAVE NOW LED TO STRONG PRESENTIMENT ON PART OF GOC THAT TOP ECHELON AT PITTSBURGH IS INDEED DOUBTFUL OF CONTINUING WITH PROJECT. ACOSTA BELIEVES WESTINGHOUSE IS PURSUING "STRATEGY OF SILENCE", WHICH INCLUDES NOT DISPATCHING ANY SHIPMENTS, UNTIL AFTER GENERAL ASSEMBLY OF SHAREHOLDERS IN MID-JULY, FOLLOWING WHICH WESTINGHOUSE WOULD TAKE POTENTIALLY UNPOPULAR (WITH SHAREHOLDERS) STEP OF DEFAULTING ON CONTRACT. AS SUPPORTING FACTS FOR THIS VERSION, ACOSTA NOTED THAT WESTINGHOUSE HAS STILL NOT POSTED PERFORMANCE BOND. MOREOVER, ACOSTA IS ALARMED AT WESTINGHOUSE WILLINGNESS TO ACCEPT FURTHER DELAYS IN SHIPPING WHEN SUCH DELAYS ONLY MEAN HIGHER PRICES.

5. ACOSTA EXPLAINED THAT UNDER COLOMBIAN FISCAL LAW, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BOGOTA 04717 311358Z

UPON DEFAULT OF CONTRACT WESTINGHOUSE WOULD NEVER BE ABLE TO BID IN COLOMBIA AGAIN. HE LEFT NO DOUBT THAT GOC WOULD SUE FOR DAMAGES. HE POINTED TO LOSS OF PRESTIGE FOR WESTINGHOUSE, WHICH WOULD BE IRREVERSIBLE IN COLOMBIA, AND WHICH WOULD AFFECT OTHER U.S. FIRMS. WHAT HE WAS MOST CONCERNED ABOUT HOWEVER, WAS IMPLICATION FOR NORTH COASTS ENERGY DEVELOPMENT PROGRAM. ENERGY ALREADY SEVERELY RATIONED IN SOME PARTS OF THREE PROVINCES

AFFECTED. IF THE CONTRACT WERE TO BE RE-LET, THE RESULTING DELAYS WOULD ENSURE THAT THE PROJECTED DEADLINE FOR MID-JULY 1976 FOR ADDITIONAL POWER TO BE PROVIDED BY THERMO-CARTAGENA WOULD NEVER BE MET, AND RATIONING WOULD BE GENERAL FOR THE ENTIRE NORTH COAST.

6. THE LOCAL REPRESENTATIVES OF WESTINGHOUSE SEEM TO APPRECIATE THE POTENTIAL GRAVITY OF THE SITUATION FOR THEIR FIRM AND FOR U.S. COLOMBIAN RELATIONS IN GENERAL. PRIVATELY THEY STATE THAT A SECOND-STRING NEGOTIATING TEAM AND VACILLATION AT THE TOP AT WESTINGHOUSE AGGRAVATED THE COST SQUEEZE IN WHICH WESTINGHOUSE NOW FINDS ITSELF. LOCAL REPRESENTATIVES BELIEVE WESTINGHOUSE SHOULD NOW ACT TO FULFILL THE CONTRACT AND ACCEPT ACOSTA OFFER TO HELP ABSORB THE LOSS THROUGH ADJUSTMENTS IN ADDITIONAL WORK CONTRACTS RELATED TO THE PROJECT WHICH ARE BOUND TO ARISE, INVOLVING PESO COSTS. MOREOVER LOCAL WESTINGHOUSE COUNSEL CARLOS HOLGUIN HAS INFORMED WESTINGHOUSE THAT COLOMBIA'S CIVIL CODE SPECIFICALLY PERMITS RE-NEGOTIATION OF PARTS OF CONTRACT FOR FORCE MAJEURE, INCLUDING UNMANAGEABLE COSTS, BUT THAT SUCH CLAUSES IN THE CODE CANNOT BE INVOKED WITHOUT A CLEAR INDICATION THAT THE CONTRACT IS IN PROCESS OF FULFILLMENT.

7. AFTER REVIEWING ALL OF THE DOCUMENTS AND CIRCUMSTANCES I MUST SAY THAT CIRCUMSTANTIAL EVIDENCE DOES SUGGEST THAT WESTINGHOUSE IS SERIOUSLY CONSIDERING DEFAULTING. AT BEST IT IS DOING NOTHING, WHICH IN ITSELF IS TROUBLE-SOME. I DO NOT KNOW WHAT ALL THE CONSIDERATIONS ARE ON WESTINGHOUSE SIDE, BUT IT IS CLEAR THAT A WESTINGHOUSE DEFAULT WILL CREATE A SERIOUS SITUATION TRANSCENDING JUST THE COMMERCIAL DEAL BETWEEN THE COMPANY AND A GOC ENTITY. IT WILL HAVE SERIOUS POTENTIAL CONSEQUENCES LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BOGOTA 04717 311358Z

FOR THE WHOLE RANGE OF US-COLOMBIAN RELATIONS AND SPECIFICALLY FOR OUR ENTIRE COMMERCIAL PROGRAM. IT WILL GIVE ALL OF US BUSINESS A BLACK EYE, AND PSYCHOLOGICALLY THE US IMAGE WILL BE HURT SIGNIFICANTLY. ANY ELECTRIC SHORTAGE IN THE COAST AREA THAT IS THE RESULT OF DEFAULT IN THE CONTRACT WILL BE LAID AT THE DOOR NOT ONLY OF WESTINGHOUSE BUT OF THE US BY THE PUBLIC. IN SHORT, THE GOOD FATH OF AMERICAN BUSINESS IS AT STAKE HERE.

8. I SHOULD ALSO POINT OUT THAT THE PASTRANA GOVERNMENT FEELS PARTICULARLY ASTOUNDED AND OUTRAGED AT WESTINGHOUSE'S BEHAVIOR BECAUSE IT DEFENDED THE CONTRACT SO VIGOROUSLY AGAINST PUBLIC CRITICISM (SEE ABOVE). ACCORDINGLY, IT FEELS EMBARRASSED BY WESTINGHOUSE AT THE PRECISE TIME IT IS TRYING TO LEAVE OFFICE WITH A GOOD

RECORD OF ACCOMPLISHMENT. A GOVERNMENT SCORNED CAN
MATCH THE PROVERBIAL LADY'S FURY.

9. IN SHORT I BELIEVE THIS SITUATION IS A POTENTIALLY
SERIOUS ONE TRANSCENDING JUST WESTINGHOUSE'S CONSIDER-
ATIONS AND INVOLVING BROADER US INTERESTS. I CONSIDER
THE POSSIBLE ADVERSE CONSEQUENCES OF A DEFAULT SUFFICIENT-
LY SERIOUS FOR US COMMERCE-AND FOR WESTINGHOUSE ITSELF
THAT SOME EFFORT MUST BE MADE BY THE USG TO AVOID IT.

10. ACCORDINGLY, I RECOMMEND THAT APPROPRIATELY HIGH
OFFICIALS OF THE DEPARTMENT AND THE DEPARTMENT OF COMMERCE
APPROACH WESTINGHOUSE, PITTSBURGH, AT ITS HIGHEST LEVEL,
TO ENSURE THAT THE EXECUTIVES THERE UNDERSTAND THE
MAGNITUDE OF THE PROBLEM THEY FACE, WITH ITS INEVITABLE
IMPLICATIONS FOR OTHER U.S. FIRMS, U.S. POLICIES AND U.S.
INTERESTS, AND TO URGE A RAPID RESOLUTION. SUCH AN APPROACH
MIGHT ALSO BE COORDINATED WITH EXIMBANK WHICH HAS
EXTENDED A LOAN TAKING INTO ACCOUNT THE CONTRACT, AND
THEREFORE WHICH PRESUMABLY HAS AN INTEREST IN AVOIDING
DEFAULT.

VAKY

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BOGOTA04717
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740138-0220
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974059/aaaaahaf.tel
Line Count: 191
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 11 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 SEP 2002 by martinml>; APPROVED <19 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOC FEARS DEFAULT BY WESTINGHOUSE ON CONTRACT FOR THERMO- CARTAGENA
TAGS: BEXP, CO
To: STATE COM
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005